THE ADECCO GROUP

The facts about Brexit

March 2017

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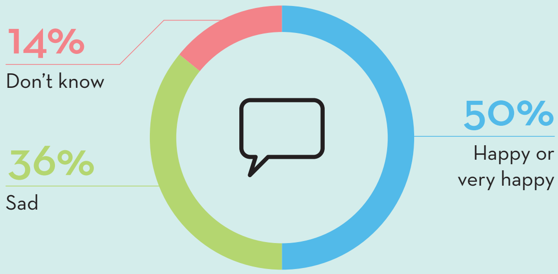
Political statements

How are you feeling about the start of the Brexit process?
(Source: Sky Data)



So after 9 months of discussion and contention 29th March 2017 saw Prime Minister Theresa May sign a letter that was delivered to Donald Tusk, president of the European Council, formally requesting that Britain exits the European Union. Britain will now have two years within which to conclude all trade negotiations.

The House of Lords finally accepted the "European Union (Notification of Withdrawal) Bill" by a majority of 156 despite The House of Commons voting down their two amendments (on the rights of EU nationals and a meaningful final vote). Labour leader Lady Smith said continuing to oppose the government would just be playing politics as MPs had made up their mind.

Nicolas Hatton, founder of The3Million, a grassroots organisation lobbying for the rights of EU citizens, said he felt "utter desperation" following the vote, stating that the Lords' amendment had been a "last chance" for EU nationals to be "treated like human beings".

The debate also cost Lord Heseltine his role as government advisor, he was told he was no longer required after arguing for the amendment for parliament to have a final binding vote on the eventual deal.

It is also worth noting that while the negotiation period has officially begun two separate reports out in March reported that the government does not have sufficient staffing levels within the Civil Service to handle the expected workload.

A joint report by the Institute for Government (IfG) and UK in a Changing Europe thinktanks also suggests Whitehall will need clear direction on what projects can be "delayed or dropped" to free up resources for Brexit. Whilst a report from the public spending watchdog suggests that two-thirds of the more than 1,000 civil service jobs created for this purpose have not yet been filled.

Business Reaction

Business reaction was fairly muted whilst the public demonstrated mixed feelings with half happy that things are under way and one in three sad about leaving. Much of the discussion centred around what form a final deal would take and whether it could be agreed in time.

A number are worried about the enforced time frame and whether a deal could realistically be concluded within the two-year period. Paul Dreschsler, President of the Confederation of British Industry (CBI), suggested Britain would face a "Pandora's box of economic consequences" if this was not achieved.

The Recruitment and Employment Confederation (REC) called for a deal which prioritises creating jobs and prosperity.

Political Fallout

With the process now officially underway tensions between the UK nations came to the fore. Most notably Scottish First Minister Nicola Sturgeon announced her intention to push for another referendum on independence with the Scottish parliament subsequently voted in favour. Ms Sturgeon initially suggested that Autumn 2018 would be the 'obvious' date however Theresa May has said that a vote before the conclusion of the Brexit process would distract it.

At the same time Brexit Secretary David Davis has said that Northern Ireland would be eligible to join the EU immediately as part of a united Ireland should it vote for unification after the UK leaves the EU.

Content of Negotiations

Early discussions will centre around a final 'divorce' bill that the UK might be liable for. It was widely reported that a figure of £50 billion was agreed at a meeting of member states and reflects commitments made to EU-wide projects until 2020.

Secretary of State for Exiting the European Union David Davis has said the figure will be 'nothing like' that high. A House of Lords analysis has also suggested the UK appears to be in a strong legal position that means they are not legally obliged to contribute towards the European Union budget if no exit deal is agreed.

The option for a transitional period for UK banks after the conclusion of negotiations was raised by Charlotte Hogg, then Bank of England deputy governor who has since resigned.

What this means

UK businesses should be pleased to see some concrete decisions being made and now that negotiations must begin there should also be an idea of what each side is going for rather than just posturing. There will still be uncertainty in the short term but at the very least employers can now start to look at points in the future where they can anticipate being able to make strategic recruitment decisions.

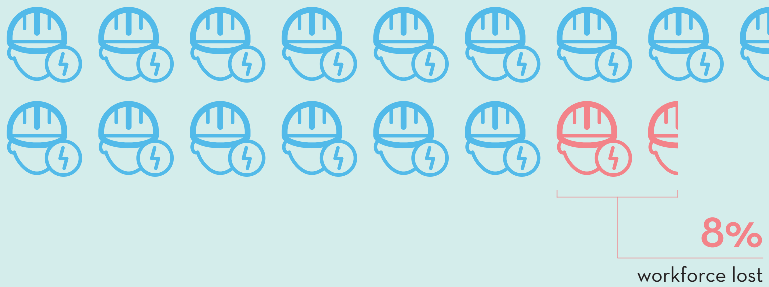
Political tensions are likely to continue until negotiations are resolved.

Baroness Falkner of Margravine pointed out that the negotiations were 'more than just a trial of strength. They will be about establishing a stable, cooperative and amicable relationship between the UK and the EU. This will not be possible without good will on both sides."

The most important factor from a recruitment position will be the status of EU nationals currently in the UK, any sign that they may struggle to be allowed to remain could cause waves.

The post-Brexit recruitment market

The Royal Institution of Chartered Surveyors (RICS) suggested that the construction industry could lose 8% of its workforce, more than 175,000 people.



Between September and December 2015 800 nurses a month were registering from the EU with the Nursing and Midwifery Council but in 2016 that figure was down to 200 – a drop of 75%.

Both the Chief Brexit negotiator for the European Commission Michel Barnier and Theresa May have publicly said that the rights of those living abroad should be paramount in any negotiations.

"Guaranteeing their rights as European citizens, in the long term, will be our absolute priority from the very start of the negotiations," said Mr Barnier in a speech to the Committee of the Regions in Brussels.

Guy Verhofstad, the lead negotiator for the European Parliament further suggested the British citizens should be allowed to keep the benefits of EU membership such freedom to travel. The difficulty here is that Mrs May has also said that any deal would have to be reciprocal.

This is in stark contrast to a statement from the UK Independence Party which suggested that the UK should deport those not in work as soon as the we leave the EU.

EU nationals living in the UK

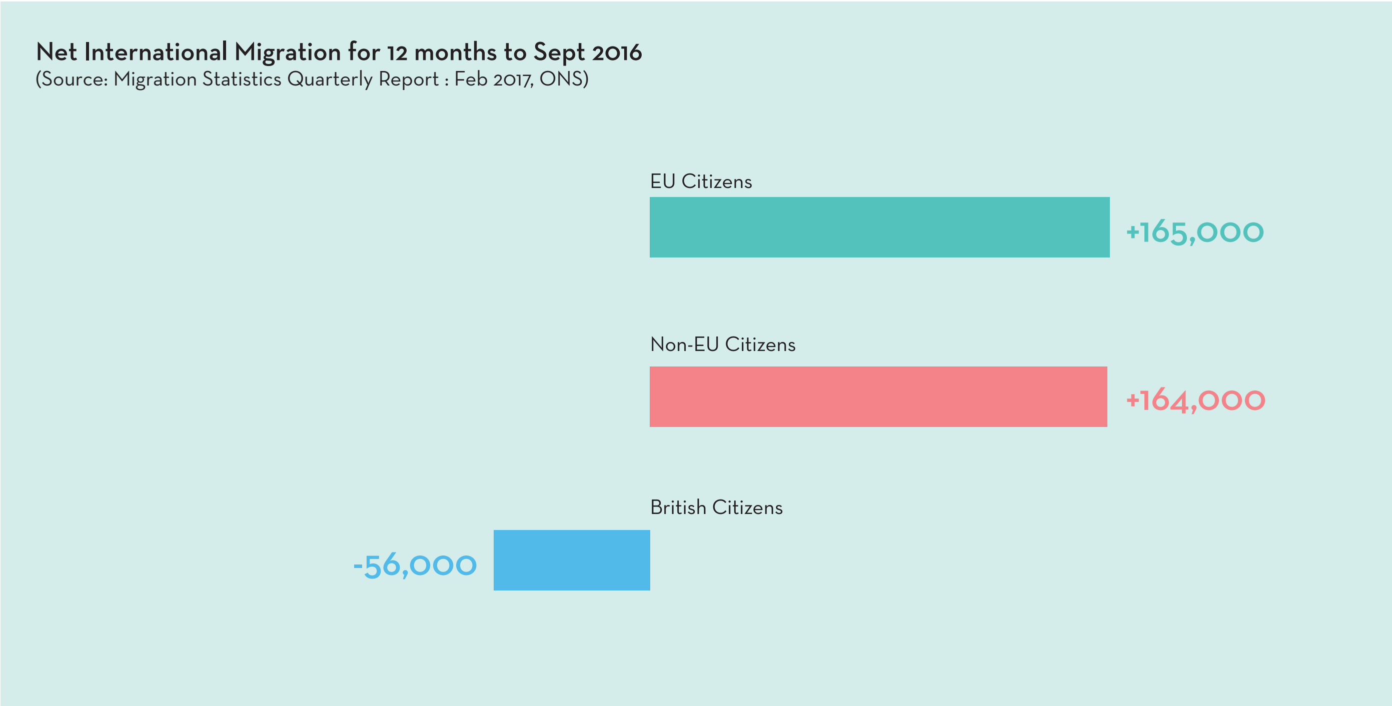
In the immediate future UK business would like to know whether the EU nationals that are already employed here will be allowed to stay. A letter signed by the heads of 35 Oxford University Colleges said institutions like them would suffer 'enormous damage if they were to lose their European lecturers, researchers and support staff.

As it stands many are not taking a chance on the negotiations and applying for the right to live here permanently regardless, 135,000 in the first six months according to the Home Office. The 85-page form may be putting some off.

Certain sectors are likely to be more heavily affected than others. Immigration Minister Robert Goodwill told the House of Lords economics affairs committee that the UK would need a 'bespoke immigration system' where EU migrants could face different rules depending on which sector they worked in.

The Royal Institution of Chartered Surveyors (RICS) suggested that the construction industry could lose 8% of its workforce, more than 175,000 people. RICS President Amanda Clack said that "the UK has a massive skills gap" but "the question is whether we have the skills to develop the programme of works that we want".

The post-Brexit recruitment market (cont'd)



High street food chain Pret A Manger admitted they would struggle to recruit if EU nationals were not available. Currently two-thirds of its workforce comes from citizens of EU countries and only one in fifty applicants is British.

The NHS was always an area of concern and the Royal College of Nursing said that 2,700 EU nurses left their registry in 2016 while the inflow has also slowed significantly. Between September and December 2015 800 nurses a month were registering from the EU with the Nursing and Midwifery Council but in 2016 that figure was down to 200 – a drop of 75%.

The Resolution Foundation has suggested that it is not just the flow of nurses that slowed but that of all European Union workers given the National Insurance registrations for EU nationals have levelled off since the referendum. In fact, for the first time in ten years the number of candidates arriving from the EU looking for work fell during Q1 2017 with 180,000 arriving without a job offer in the 12 months to September 2016 according to the ONS.

The number of EU nationals employed in the UK also fell during the final quarter of 2016, this sounds a lot worse than it is and is certainly not unprecedented (it happened at the end of 2015 and midway through 2015 as well) but could be the start of something more significant.

Interestingly in the other direction Maastricht University in Holland has seen the first decrease in UK students for five years.

Non-EU Immigration

One element to remember within this equation is migration from countries outside the EU which is often higher. The point being that even if EU migration is severely limited it would not entirely hamstring the UK from a recruitment perspective.

Lord Green of Deddington, head of the Migration Watch think tank, said Britain needed to become self-sufficient in its supply of talent. He said: "I'm not suggesting 'British jobs for British workers' – what I am suggesting is that in reaching a new immigration regime with Europe, we set it up in a way as to minimise the flow of low-skilled EU migrants."

David Davis and House of Lords EU Home Affairs Sub-Committee have said that they do not necessarily expect migration to fall and that it will in all likelihood fluctuate depending on the needs of various sectors.

What this means

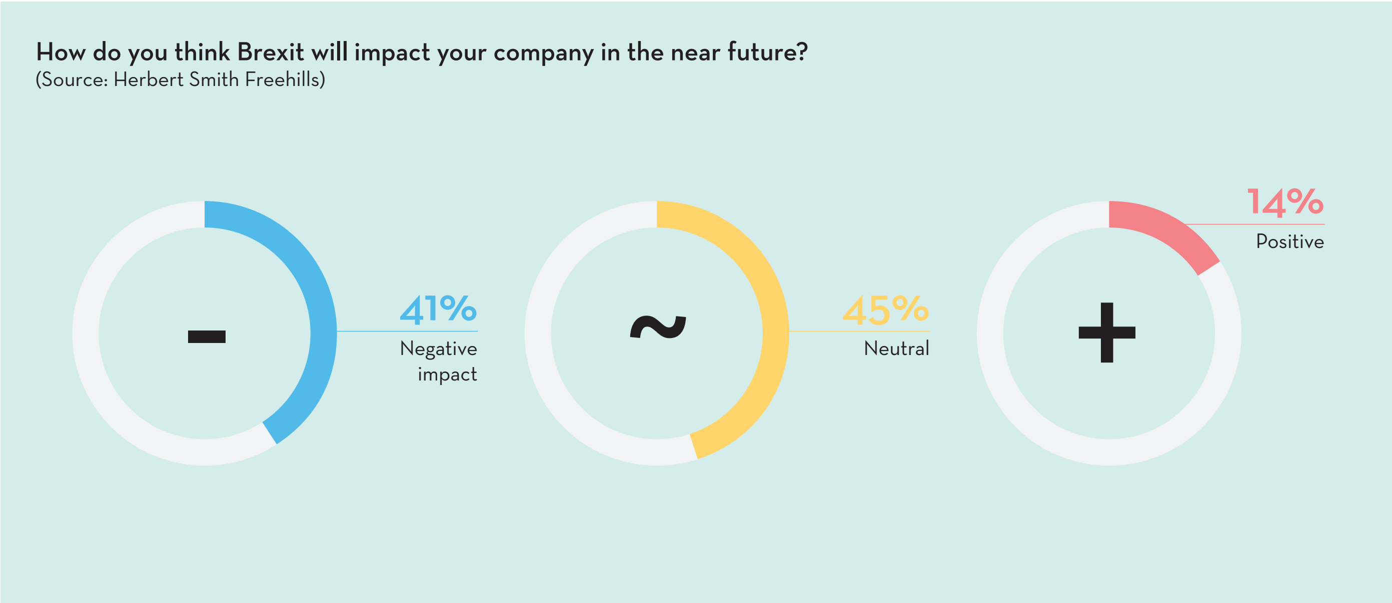
It is difficult to know if this is the start of a trend that sees fewer EU nationals looking for work in the UK, it could be that the wave has crested. Some would argue that this is just a blip.

Stephen Clarke, an Analyst with the Resolution Foundation believes "we can be fairly sure that a shift is underway."

The potential impact of losing the existing workforce of foreign nationals was calculated by the New Economics Foundation which estimated the UK economy would lose £328million a day if they went on strike. That is the equivalent of 4% of UK GDP.

Ultimately it is highly unlikely that any of the doomsday scenarios will happen and businesses will certainly be given tie to adapt. Either way businesses would be best advised to take stock of their workforce and understand what skill sets/areas could be most affected by any changes. This could be areas where high levels of EU nationals are currently employed or areas where employers expect to be able to fill future gaps with incoming candidates.

Are companies moving to the continent?



The beginning of the process to leave did not spark a rush for businesses to move operations out of the UK but March certainly saw some moves in that direction. According to EY 53 of the 222 largest firms with operations in the UK are actively moving staff or reviewing their status. A lot of the ones making moves appear to be based in the finance industry.

The most high profile was the announcement that Lloyds of London is to set up a subsidiary insurance company and base it in Brussels, in time for 1st January 2019. Goldman Sachs also confirmed that "hundreds" of roles would be moved out of London and onto the continent.

JP Morgan released a memo that said: "While our objective in the short term is to limit the number of staff moves, there will inevitably be some staff who will be asked to consider relocation". The memo said the bank had options across the EU in terms of where to move operations and legal entity structure even if Britain loses its ability to passport financial services into the EU.

HSBC repeated previous announcements that up to 1,000 roles may need to move, mostly to Paris.

Reuters suggested that the European Central Bank was considering fast-tracking applications from British-based banks which are moving operations away from London to the continent.

London Mayor Sadiq Khan warned that a lack of assurance around and interim/transitional deal would generate this kind of response with the city losing thousands of jobs.

Sweden became the latest country to make a play for businesses thinking of leaving London after the country's financial markets minister visited the fintech incubator in Canary Wharf and met with Executives from Citigroup.

Even Oxford University was rumoured to be planning to open a campus in France, after the French Ministry of Education confirmed they had met several prominent UK universities. The campus would then receive French legal status and be eligible for EU funding. Oxford has said while they had received 'constructive and helpful proposals' they were not considering plans for any overseas campuses.

The Long Term View

In general, most companies are either preferring to wait and see what the outcome of negotiations will be before making a decision on moving or believe things will balance themselves out in the end.

According to a survey conducted by law firm Herbert Smith Freehills more than half (57%) of publicly listed companies in the UK anticipate the long-term effects of Brexit will be neutral on their business. They were less optimistic in the shorter term although neutral was still the largest response group (45%).

One company that may have some decisions to take in the future is PSA, the company that owns Peugeot and Citroen, after they agreed a deal to purchase Vauxhall from General Motors. There are 4,500 people employed in the UK at plants in Ellesmere Port, Merseyside and Luton. These jobs are all contracted until at least 2021 but the company may have to make choices on the new Astra as early as next year, 2018.

The French company has said it was to avoid factory closures and job cuts but they might require similar assurances as those provided to Nissan, that their operations would not be affected by Brexit.

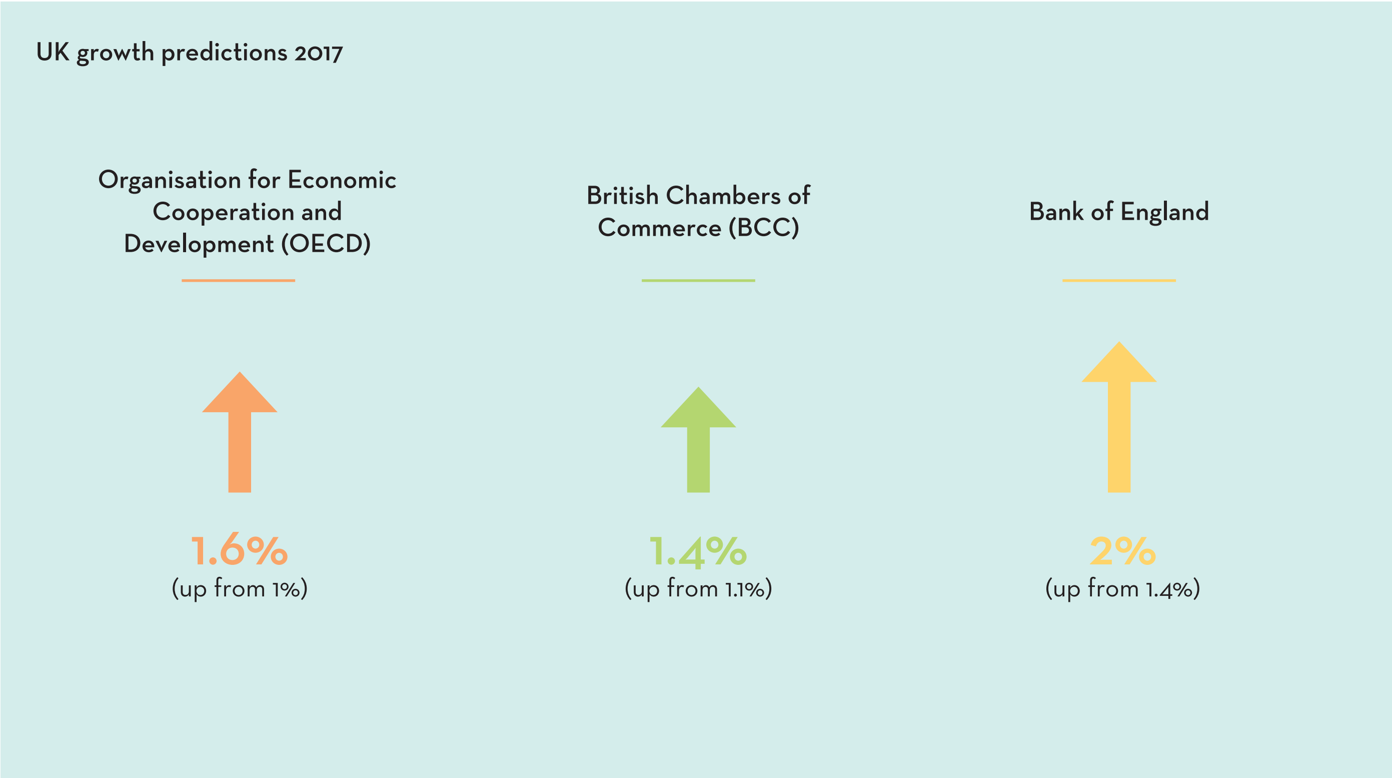
The Ford Motor Company is a far larger employer of British talent, more than 14,000 people, and their European president Jim Farley told the Geneva motor show that in order to protect those jobs 'a zero tariff environment is really, really important'.

Deutsche Bank is one of the few to physically demonstrate confidence in the UK economy; they committed to a new UK headquarters at 21 Moorfields in the City of London.

What this means

A number of financial services businesses are moving some staff to the continent in order to maintain a presence, partly for safety's sake, it is unlikely to mean the wholesale loss of jobs from the UK to Europe, certainly in the near future.

Are companies moving to the continent? (cont'd)



The vast majority of roles are unlikely to see much change until more concrete points in the negotiations are revealed.

This said a report from law firm Freshfields Bruckhaus Deringer warned that leaving the EU without a deal in place would trigger 'leaching' of banks from the UK. It also said that firms are already applying a "base case scenario" where talks end in two years' time with no access to EU markets will have been agreed.

Economic Situation

The UK has steadily seen its growth forecasts for 2017 increased by influential bodies over the last few months. In March it was the turn of the Organisation for Economic Cooperation and Development (OECD) and the British Chambers of Commerce (BCC) as well as the Bank of England.

However, Suren Thiru, the BCC's Head of Economics said price pressures, coupled with lacklustre pay growth, would weigh on the UK's economic growth.

One section of the country that is certainly enjoying the current climate are exporters who are benefitting from an economic 'sweet spot' according to Bank of England deputy governor Ben Broadbent. Currently the manufacturing sector is growing at its fastest pace for more than three years says manufacturing lobby group EEF.

"The post-referendum wobble that defined UK manufacturing's performance in the second half of 2016 has been left firmly behind with manufacturers now rallying far more strongly than even they had predicted," EEF Chief Economist Lee Hopley said.

Additionally, production of cars in Britain hit a 17-year high in February.

Not everyone is quite so positive though as developer HB Reavis, who recently sold 33 Central in London, has announced it will be reducing investment in regional cities. This could be the start of a wider trend as thinktank Demos suggested that regional areas of Britain, those that voted most in favour of Brexit, are likely to be hit the hardest given their reliance on finances from the EU.

"Despite overwhelmingly voting in favour of leaving the European Union, Wales stands to be the region worst hit by the UK's departure from the EU," concluded the Demos report. "Wales is also one of the UK's two leading exporters to the European Union, with over 60% of its exports going to the EU, and so would be most affected by potential tariffs."

None of the 12 regions studied recorded anything less than a medium risk of harm in one of the three categories, though Scotland – which voted heavily in favour of remaining – was among those with the least to fear.

What this means

Economic forecasts seem to coming round to the idea that the world hasn't ended yet despite a vote to leave the EU but that does not mean everything is rosy.

OECD Chief Economist Catherine Mann said: "The pick-up in growth from countries taking fiscal initiatives is broadly welcome, but we cannot ignore the danger that the recovery gets knocked off track by policy errors or financial risks and vulnerabilities."

Increasing economic growth may give employers more confidence to invest in their workforce.